

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1158

In the Matter of)	
)	
ENERGY TRUST OF OREGON)	ORDER
)	
Recommendations for 2006 Performance Measures.)	

DISPOSITION: STAFF'S RECOMMENDATION APPROVED

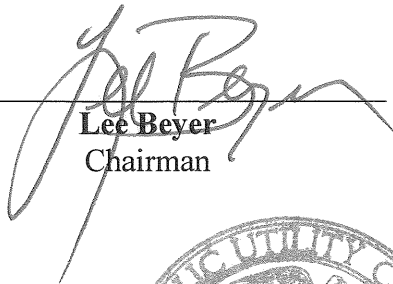
At its Public Meeting on August 9, 2005, Staff presented to the Public Utility Commission of Oregon (Commission) the Proposed 2006 Performance Measures for the Energy Trust of Oregon (ETO). The performance measures and targets clearly define the Commission's minimum expectations of ETO's performance. The Commission adopted 2005 performance measures for the Energy Trust in Order No. 04-593. On April 22, 2005, Commission staff held a workshop to review the 2005 performance measures and make initial recommendations for 2006 measures. A description of the Proposed 2006 Performance Measures and discussion of the procedural history is contained in the Staff Report, attached as Appendix A and incorporated by reference.

At the August 9, 2005 Public Meeting, the Commission adopted Staff's Recommendation, and approved the Proposed 2006 Performance Measures to assess the performance of the Energy Trust of Oregon for 2006.

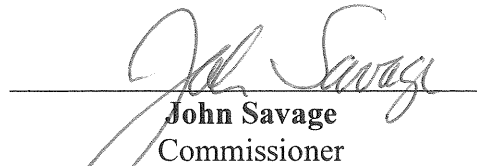
ORDER

IT IS ORDERED that the Proposed 2006 Performance Measures for the Energy Trust of Oregon are adopted.

Made, entered and effective AUG 16 2005 .



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

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The presentation specified the following for comparison purposes:

2005 Performance Measure	2004 Performance
Electricity efficiency savings of at least 20 MWa, 3-year rolling average	23.77 MWa
Electricity efficiency average levelized life-cycle cost not more than 2 cents/kWh	1.7 cents per kWh
Natural gas efficiency savings of at least 700,000 therms	737,730 therms
Natural gas efficiency average levelized life-cycle cost no more than 30 cents/therm	25.5 cents/therm
Annual new renewable resource development of 15 MWa, 3-year rolling average	27.093 MWa
Unqualified financial audit opinion	Met
Administrative and program support costs below 11% of annual revenues	6.8 percent

A question was raised regarding the 2004 administrative and program support cost percentage of 6.8% compared to the 11% performance measure. Mr. Volkman later responded:

The legislative report properly reports administrative costs at 6.8% for 2004. However, Energy Trust budgeted 2005 administrative costs at about 10%, anticipating the need to respond to recommendations in the management audit completed in early 2005 but after the budget was adopted. After reviewing the final management audit, we expect to incur additional administrative expenses to respond to the audit's recommendations. The precise effect on administrative costs will depend on timing and other factors, but we expect 2005 administrative costs to be much closer to the 11% performance measure than in 2004.

The parties at the workshop agreed that it would be reasonable to adopt the 2005 benchmarks for use in 2006, with added specificity regarding the definition of benefit/cost ratios. Subsequent to the workshop, Commissioner Savage expressed an interest in reviewing and possibly modifying the performance measure related to renewable resource development. Staff shared its proposed revisions with interested parties, as described below.

The performance measures staff proposes for 2006 that remain unchanged from 2005 include the following:

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The Commission expects the Trust to obtain electricity efficiency savings of at least 20 MWh, computed on a three-year rolling average.

The Commission expects the Trust to obtain electricity efficiency savings at an average levelized life-cycle Trust cost of not more than two cents per kWh.

The Commission expects the Trust to obtain natural gas efficiency savings of at least 700,000 therms, computed on a three-year rolling average.

The Commission expects the Trust to obtain natural gas efficiency savings at an average levelized life-cycle Trust cost of not more than 30 cents per therm.

The Commission expects the Trust to demonstrate its financial integrity by obtaining an unqualified financial audit opinion annually.

The Commission expects the Trust to demonstrate program delivery efficiency by keeping its administrative and program support costs¹ below 11 percent of annual revenues.

The Commission expects the Trust to demonstrate reasonable customer satisfaction rates by surveying its customers as part of its program evaluations. Preferably, the surveys will provide a scale showing the degree of satisfaction with Trust services and allow for open-ended responses. In addition, the Trust will report salient statistics regarding complaints it receives directly or from utility customer services. Findings are to be reported to the Commission.

In addition to considering the results of the above performance measures, staff recommends that the Commission continue to consider public comments and the performance of conservation and renewable resource programs across the country when making its annual decision to renew its Grant Agreement with the

¹ For the purpose of these performance measures, program support costs are defined as all program costs except the following accounts: program management, program incentive, program payroll and related expenses, call center, and program outsource services.

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Trust. The Commission will seek comment from the public on such issues as the following:

- Is the Trust achieving good results in its conservation and renewable resource programs?
- Does the Trust conduct its business in an open and transparent way?
- Is the Trust receptive to public input?
- Does the Trust monitor program performance and make program adjustments effectively?
- Are the benefits of the Trust's programs reasonably spread among customer classes and geographic areas?
- Are the Trust's programs appropriately coordinated with related local, state, and regional programs?
- Is the Trust complying with the guidelines set forth in the Grant Agreement?
- Are there any significant issues that warrant the issuance of a Notice of Concern?
- Should the Grant Agreement be renewed for another year?

The Commission uses an annual process to review the Grant Agreement. The current agreement expires Feb. 28, 2007. The Commission has until Dec. 1, 2005, to decide whether to extend the agreement and, if so, under what terms. Following is the timeline staff anticipates for the review process:

Aug. 3, 2005 - Staff will hold a workshop to solicit comments regarding renewal of the Grant Agreement.

Aug. 17, 2005 - Staff will hold a workshop with interested parties to discuss potential amendments to the Grant Agreement. (Additional workshops may be held if necessary.)

Aug. 31, 2005 - Formal comments due from interested parties regarding renewal of Grant Agreement. These will be circulated to workshop participants.

Sept. 15, 2005 - Staff will circulate its draft recommendations.

Sept. 26, 2005 - Final comments on staff recommendations are due from interested parties.

Oct. 25, 2005 - Staff will make its final recommendations at the Public Meeting.

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Benefit/Cost Performance Measure

The 2005 benefit/cost performance measure was:

The Commission expects the Trust to report the benefit/cost ratio for its larger conservation acquisition programs beginning with its second quarter 2005 report. The Trust staff, Commission staff, customer groups and other interested parties will meet to develop an agreed upon calculation of costs and benefits included in the ratio. An agreed upon definition should be established by mid-May 2005 for incorporation in the second quarter 2005 report.

Commission staff, Energy Trust and interested parties discussed benefit/cost and cost-effectiveness methodologies at the April 22, 2005, workshop. On May 4, 2005, the Energy Trust submitted additional information about its cost-effectiveness methodology.

The Energy Trust's cost-effectiveness screen uses three perspectives: utility, societal and consumer. The elements of these benefit/cost ratios are described in the Energy Trust's cost-effectiveness policy paper (see http://www.energytrust.org/Pages/about/library/policies/costeffectiveness_030414.pdf). The Energy Trust uses a 3% real discount rate to bring costs and benefits to a present value in its cost-benefit evaluations. The cost-benefit evaluation is not the only factor in Energy Trust investment decisions, but only programs and measures that pass the cost-effectiveness test qualify for Energy Trust funding.

The *utility system perspective* compares Energy Trust costs to the benefits to the utility system. The Energy Trust employs the utility system perspective prospectively, when deciding whether to proceed with programs and measures, and retrospectively to report end-of-year results and again when evaluations are completed.

The *societal perspective* (total resource cost) compares all benefits that can be quantified with reasonable effort to the combined cost to all parties in the efficiency investment. The societal perspective is employed prospectively. The Energy Trust uses any new information about societal costs in updated societal perspective calculations when it considers continuation of programs. The societal perspective includes a credit for carbon dioxide reduction.

Finally, the Energy Trust applies the *consumer perspective* to check that the incentive options lead to a reasonable payback for the customer.

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Staff initially recommended that the Energy Trust use the utility system perspective to report the benefit/cost ratio for its larger conservation acquisition programs. After further comment, staff determined in collaboration with other parties that the Energy Trust also should report results using the societal perspective. In calculating the results, the Energy Trust should use reasonable efforts to assess the benefits and costs of the programs.

Comments were also received regarding the frequency of the reporting and whether the results should be reported only for "larger" conservation programs. Given the additional requirement to report the societal perspective results, staff recommends annual comprehensive reporting, rather than quarterly reporting for "larger" projects. However, if significant changes in benefit/cost ratios occur during the year, staff recommends that the Trust report on such changes during its quarterly updates to the Commission.

Staff recommends the following benefit/cost performance measure for 2006:

The Commission expects the Trust to report the benefit/cost ratio for its conservation acquisition programs in its annual report based on the utility system perspective and societal perspective. The Commission expects the Trust to report significant mid-year changes in benefit/cost performance as necessary in its quarterly reports.

Renewable Resource Performance Measure

The 2005 performance measure for renewable resources was:

The Commission expects the Trust to deliver at least 15 MWa of new renewable resource development annually, computed on a three-year rolling average, from a variety of renewable resources.

Staff recommends the Commission adopt the following two performance measures for renewable resource development for 2006:

The Commission expects the Trust's Utility-Scale Program to achieve 9 MWa of new renewable resource development annually, computed on a three-year rolling average, by funding projects consistent with each utility's acknowledged Integrated Resource Plan.

Performance is expected to vary year by year due to tax policies, energy policies, utility acquisition activities and market prices. Therefore, the Commission expects

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the Trust to submit with its draft action plan and budget each year projected Utility-Scale Program achievements for the coming year for Commission and public comment.

The Commission expects the Trust to secure at least 3 MWA of new renewable resources per year, computed on a three-year rolling average, from a variety of small-scale projects.

Staff reviewed its proposed two-tier approach to renewable resource performance measures with Energy Trust staff, then discussed the approach with the Trust's Renewable Advisory Council on June 9, 2005. On June 13, 2005, staff sent its final proposed measures, with acquisition targets, to council members and April 22, 2005, workshop participants.

The two-tier approach recognizes that neither of the utilities' (Portland General Electric's and PacifiCorp's) large-scale wind acquisitions in 2005 required Energy Trust funds; they were at or below market cost. The approach would allow the Trust to continue to set aside funds to support utility-scale renewable resource projects consistent with acknowledged integrated resource plans, while not penalizing the Trust for acquisitions outside of its direct control. Utility-scale projects represent the least-cost way to acquire renewable resources using Trust funds.

The proposed reduction in the overall development target from 15 MWA to 12 MWA is based on the following:

- Trust expenditures and acquisitions to date
- Increases in wind turbine prices
- An uncertain federal production tax credit
- Maintaining a diversity of resource types
- Staff's review of spreadsheets provided by the Energy Trust analyzing best-case and worst-case scenarios over time, including a comparison with cost projections from the U.S. Department of Energy's Energy Information Administration that show a similar range. The Trust's scenarios account for projected revenues over time, forecasted program allocations, estimated changes in technology costs, assumptions about federal and state tax credits in the future, and estimates of resource availability within each utility's service area.

The proposed 12 MWA target is an average of the Trust's worst-case and best-case scenarios. Consistent with the above factors, staff proposes that three-quarters of the target be achieved through utility-scale projects and one-quarter through small-scale

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projects such as solar, biomass and small wind projects. Staff believes the proposed targets are aggressive but achievable.

Only projects requiring above-market cost funding from the Trust at the time of the utility's commitment (through a power purchase agreement, for example) would count toward the utility-scale performance measure. Staff expects projects would be developed without Trust assistance if their purchase price is at or below market. In addition to those projects requiring above-market cost funding at the time of development, projects clearly resulting from an equipment loan, feasibility study grant, or certain types of technical assistance such as grant-writing should count toward the target for small-scale projects. In that case, the Trust can make its funds go further – for example, helping a project developer get a subsidy from another entity, such as U.S. Department of Agriculture, instead of using Trust incentives.

PROPOSED COMMISSION MOTION:

The performance measures and targets outlined in Attachment A be adopted to be used in evaluating the performance of the Energy Trust of Oregon during calendar year 2006.

Energy Trust 2006 performance measures.doc

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Attachment A
Proposed 2006 Performance Measures for the
Energy Trust of Oregon
June 28, 2005

The following performance measures and targets are intended to clearly define the Commission's minimum expectation of the Energy Trust of Oregon (Energy Trust or the Trust) performance. Should the Trust fail to meet these performance targets, the Commission will consider issuing a Notice of Concern pursuant to the Grant Agreement between the Commission and the Trust.

Savings targets for energy efficiency programs and development targets for renewable resource programs are set at an aggregated level rather than at a sector level to allow the Energy Trust flexibility to pursue programs in different sectors as market forces and technological advances would dictate. Implicit in these target levels is the assumption that Energy Trust will provide programs for all customer sectors, including those that have historically been underserved.

As part of our ongoing oversight of the Trust, the Commission will evaluate past utility performance and program performance by conservation and renewable resource programs across the country for use as a rough yardstick for Trust activities.

Electric Efficiency Performance Targets:

The Commission expects the Trust to obtain electricity efficiency savings of at least 20 MWh, computed on a three-year rolling average.

The Commission expects the Trust to obtain electricity efficiency savings at an average levelized life-cycle Trust cost of not more than two cents per kWh.

Natural Gas Efficiency Performance Targets:

The Commission expects the Trust to obtain natural gas efficiency savings of at least 700,000 therms, computed on a three-year rolling average.

The Commission expects the Trust to obtain natural gas efficiency savings at an average levelized life-cycle Trust cost of not more than 30 cents per therm.

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Renewable Resource Development Targets:

The Commission expects the Trust's Utility-Scale Program to achieve 9 MWa of new renewable resource development annually, computed on a three-year rolling average, by funding projects consistent with each utility's acknowledged Integrated Resource Plan.

Performance is expected to vary year by year due to tax policies, energy policies, utility acquisition activities and market prices. Therefore, the Commission expects the Trust to submit with its draft action plan and budget each year projected Utility-Scale Program achievements for the coming year for Commission and public comment.

The Commission expects the Trust to secure at least 3 MWa of new renewable resources per year, computed on a three-year rolling average, from a variety of small-scale projects.

Financial Integrity:

The Commission expects the Trust to demonstrate its financial integrity by obtaining an unqualified financial audit opinion annually.

Program Delivery Efficiency:

The Commission expects the Trust to demonstrate program delivery efficiency by keeping its administrative and program support costs² below 11 percent of annual revenues.

Customer Satisfaction:

The Commission expects the Trust to demonstrate reasonable customer satisfaction rates by surveying its customers as part of its program evaluations. Preferably, the surveys will provide a scale showing the degree of satisfaction with Trust services and allow for open-ended responses. In addition, the Trust will report salient statistics regarding complaints it receives directly, or from utility customer services. Findings are to be reported to the Commission.

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Benefit/Cost Ratios:

The Commission expects the Trust to report the benefit/cost ratio for its conservation acquisition programs in its annual report based on the utility system perspective and societal perspective. The Commission expects the Trust to report significant mid-year changes in benefit/cost performance as necessary in its quarterly reports.

Other Considerations:

In addition to considering the results of the above-mentioned performance measures, the Commission will also consider the performance of other conservation and renewable resource programs and public comments when making its annual decision to renew its Grant Agreement with the Trust. The Commission will seek comment from the public on such issues as the following:

- Is the Trust achieving good results in its conservation and renewable resource programs?
- Does the Trust conduct its business in an open and transparent way?
- Is the Trust receptive to public input?
- Does the Trust monitor program performance and make program adjustments effectively?
- Are the benefits of the Trust's programs reasonably spread among customer classes and geographic areas?
- Are the Trust's programs appropriately coordinated with related local, state, and regional programs?
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